



HR Topic: **Dependent Care Flexible Spending Account**

***For Plan Year 2015
OHR Health Insurance Team***

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Dependent Care Flexible Spending Account

Important Information:

This booklet provides general information about the Dependent Care Flexible Spending Account (FSA). Please note that this before-tax benefit is governed by the Internal Revenue Code and related guidance. If there is any inconsistency between information provided here and Federal law (and related Montgomery County Government plan documents), Federal law (and related Montgomery County Government plan documents) will apply. Please remember that the representations apply only to dependent care expenses. The County does not represent that a participant's overall tax liability will be reduced. We recommend that you consult with your tax advisor for advice on tax matters.

General Information

Q. What is the Dependent Care Flexible Spending Account?

A. The Dependent Care Flexible Spending Account (FSA) is a salary reduction plan that provides participating employees the opportunity to reduce taxable income by paying for certain dependent care expenses (not medical care expenses) with before-tax dollars.

Contributions you elect to make to your Dependent Care FSA are automatically reduced from your paycheck before taxes are calculated. Those before-tax contributions are used to reimburse you for qualified dependent care expenses. As expenses are incurred, you may file for reimbursement with Benefit Strategies, the County's FSA administrator.

Q. If I don't spend all the money I've contributed by the end of the year, can I get it back or apply it to the following year?

A. No. IRS rules governing flexible spending accounts require that if you don't use all of the contributed amount you forfeit unused amounts. However, you have until March 15th of the following calendar year to incur expenses. It's important to estimate your likely expenses carefully and contribute only the amount that you expect to use. Unused amounts cannot be returned to you.

Participation

Q. Who is eligible to participate in this FSA?

A. Permanent full-time and part-time (at least 10 hours per week) Montgomery County Government employees may participate.

Q. Who is a qualifying individual?

A. A qualifying individual is:

- ❑ Your qualifying child under age 13 whom you may claim as a dependent for Federal income tax purposes. If you are divorced, only the custodial parent may receive reimbursements (if you have an agreement with your former spouse, you may not have to claim your child as a dependent).
- ❑ Your spouse who is physically or mentally incapable of self care and resides with you for more than half the year.
- ❑ A person who is physically or mentally incapable of self care, resides with you for more than half the year, and either:
 - a) Was your dependent, or
 - b) Would have been your dependent except that:
 - i. He or she received gross income of \$3,650 or more,
 - ii. He or she filed a joint return, or
 - iii. You, or your spouse if filing jointly, could be claimed as a dependent on someone else's previous year's return.

Eligible Expenses/Service Providers

Q. What are eligible dependent care expenses?

A. Eligible expenses are those expenses you pay for household services and for the care of a qualifying individual (defined on the previous page), provided such expenses are incurred to enable you (and your spouse, if you are married) to be employed. Examples of eligible expenses are:

- ❑ Household services such as a domestic maid or cook (if those services are provided to the qualifying individual);
- ❑ Licensed day care centers;
- ❑ After-school programs; and
- ❑ Babysitters in your home or dependent care provided in the babysitter's home while you are working.

Examples of expenses that are ***not eligible*** are tuition for kindergarten, private school tuition for grades 1 through 12, and transportation to the place where care is provided. In addition, expenses for overnight stays at camps are not eligible.

Q. Who may provide services?

A. Qualifying providers may include:

- ❑ Dependent Care Centers (if the center provides care for more than six non-resident individuals, it must meet all applicable licensing requirements).
- ❑ An individual who provides care inside or outside your home. (However, a child of yours under age 19 or any other individual for whom

you can claim as a dependent does not qualify as a care provider.)

- ❑ A housekeeper whose services include providing care for a qualifying dependent.

Limitation on Salary Reduction

Q. Is there any limitation on the amount of salary reduction?

A. The maximum calendar year contribution is the lesser of:

- ❑ \$5,000 (\$2,500 if married and filing a separate return);
- ❑ Your earned income; or
- ❑ Your spouse's earned income, if applicable (if your spouse is a full time student or is disabled, the spouse is deemed to have income of \$250 per month if one qualifying individual is cared for and \$500 per month if two or more qualifying individuals are cared for).

Q. If both the husband and wife work, does the \$5,000 limit apply to the husband and the wife separately?

A. No. The \$5,000 limit applies to the family unit for purposes of reimbursing expenses for household services and expenses for the care of the qualifying individual in that family.

Tax Information

Q. Does the Dependent Care FSA replace the Federal income tax credit?

A. No. You may choose between the tax credit and the FSA salary reduction. Consult your tax advisor to determine which option is most advantageous to you.

Q. Can a participant in the Dependent Care FSA still get the income tax credit for dependent care expenses?

A. Yes. However, the dollar amount of expenses eligible for the tax credit must be reduced dollar for dollar by the amount of employer provided dependent care assistance excluded from income.

Remember, the tax credit is a dollar-for-dollar reduction in Federal tax while the salary reduction is a reduction of taxable income. The credit varies, depending on your income and expenses. In computing the credit, no more than \$3,000 in expenses may be considered for one qualifying individual, and \$6,000 is the maximum for all qualifying individuals.

Q. Which method saves more taxes?

A. The answer requires a separate calculation for each individual. We recommend that you consult your tax advisor on this important question.

Q. Are there other tax considerations I should be aware of?

A. Yes, and you should consult your tax advisor for more technical information. For example, a taxpayer must provide the day care provider's name, address and Social Security number or tax

identification number. If the correct identification information is not provided, the credit or exclusion may be denied.

Q. Are there any tax reporting forms that I must file when I contribute to the Dependent Care FSA?

A. Yes. The total amount you contribute to the Dependent Care FSA will be recorded in a separate box on your Form W-2. When preparing your tax return, you should complete and file an IRS Form 2441. You should consult your tax advisor regarding the Form 2441 as well as any additional filing requirements.

Reimbursement of Eligible Expenses, the FSA Card and Important Deadlines

Q. How do I receive reimbursement?

A. Complete claim forms as expenses are incurred and submit them to the plan administrator, Benefit Strategies, with the required documentation. It's your responsibility to send completed claim forms to Benefit Strategies on a regular basis as expenses are incurred in order to receive regular reimbursement checks.

Claim forms are available in the Office of Human Resources, EOB 7th floor and online on the OHR website. Completed forms and documentation should be sent to Benefit Strategies. Benefit Strategies will receive and process claims and issue checks on a weekly basis up to the amount deducted to date.

You can only receive reimbursements up to the amount you have actually contributed. If your expenses exceed your contributions you will have to

wait for reimbursement until you have made the contributions.

Q. Can I use Benefit Strategies' FSA Card to receive reimbursement?

A. The FSA Card can be used in dependent care settings. However, card will only work for an amount that does not exceed the available balance in your Dependent Care FSA account on that day. The IRS requires you keep all original documentation for purchases associated with the FSA card. Benefit Strategies may also request copies of your documentation to verify a debit card purchase. To be valid, documentation must include: date the expense was incurred, name (if applicable), amount of the expense, provider name, service/product description.

Q. Do I have to submit proof of expenses? What are the deadlines?

A. Yes. You must provide documentation of such items as a spouse's income, amounts paid for dependent care and the nature of the care provided. When satisfactory documentation is provided, you'll be reimbursed for the dependent care expenses up to the limit explained above.

Only expenses incurred on or after January 1 of the calendar year for which you elect to participate are allowed. You have until March 15th of the following calendar year to ***incur expenses*** applicable to the prior year's election.

You have until April 30th of the following calendar year to ***submit claims*** for incurred expenses applicable to the prior year's election. **If claims are not received by the FSA administrator by that date, any unused amounts in your account will be forfeited.**

Changes

Q. Can I enroll in the Dependent Care FSA or change my contribution during the calendar year?

A. In most cases, no. IRS rules provide that you may only change your contribution or enroll during the year if you have an eligible IRS qualified status change. Some examples of changes in status include marriage, divorce, birth of a child, change in providers or change in the provider's cost. If your provider is a relative you generally cannot make a change due to the change in cost. If you have a change in status, contact the Office of Human Resources **within 60 days** of the date of change. You'll need to provide proof of the change at that time. For more information on qualified status changes, refer to your Summary Description.

Q. Once I sign up for the FSA, can I drop out?

A. In most cases, no. If you enroll in the Dependent Care FSA in a given year, you *may not* leave the plan during that year except under the very limited circumstances of status changes described above.

Resignation/ Termination

Q. If I resign from the County or terminate my employment, what happens to the unrecovered amount set aside in the Dependent Care FSA?

A. If you have documentation of eligible expenses for the period in which you were employed and a participant in the program, you can request reimbursement by completing the claim form and submitting it to Benefit Strategies.

If you didn't incur expenses while a participant in the program or if you can't provide the required documentation, the unused amount will be forfeited.

Enrollment in the Dependent Care FSA

Q. How do I enroll in the Dependent Care FSA?

A. During the County's annual Open Enrollment period, you'll need to elect to participate in the FSA for the next calendar year. Carefully determine your likely dependent care expenses for the next calendar year. Remember that any unused balance in your FSA will be forfeited.

The FSA election automatically ends with each calendar year. You must make a new election each Open Enrollment for the following year, if you wish to participate.

Please note that newly eligible employees, such as new hires, may elect to participate within 60 days of their eligibility date.

For More Information:

Benefit Strategies

1-888-401-FLEX (3539)

Monday –Thursday 8AM – 6PM ET;

Friday 8AM – 5PM ET

You may also email info@benstrat.com or visit www.benstrat.com.

For additional information and forms, visit

www.montgomerycountymd.gov/ohr, click the Benefits tab at top left, then the Employee Health Insurance page; scroll down to the Flexible Spending Account section.